

Message Text

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ACTION ARA-14

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FM AMEMBASSY MANAGUA
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TAGS: EFIN, NU
SUBJECT: GON BEGINS TO TAKE ECONOMIC MEASURES AGAINST THE
PRIVATE SECTOR

1. NOVEDADES ON AUGUST 29, PRINTED THE FULL TEXT OF A
MEMORANDUM FROM CENTRAL BANK PRESIDENT ROBERTO INCER
BARQUERO TO THE NATIONAL PLANNING COUNCIL (CNP). THE
MEMORANDUM HAD THE CHARACTER OF A SINGLE MEMBER OF THE
GON ECONOMIC TEAM PUTTING FORTH HIS PERSONAL RECOMMENDATIONS
ON HOW TO DEAL WITH THE STRIKE OF THE PRIVATE COMMERCIAL
COMPANIES.

2. THE MEMO CONTAINED NINE NUMBERED PARAGRAPHS SUMMARIZED
(UNOFFICIAL TRANSLATION AS FOLLOWS: 1) THE SUPPORT OF
THE PRIVATE SECTOR FOR THE GENERAL STRIKE SHOWS IT HAS
LOST ALL INFLUENCE OVER POLITICAL AND ECONOMIC AFFAIRS AND
IS FOLLOWING THE DICTATES OF POLITICAL GROUPS THAT DO
NOT REPRESENT THE TRUE INTERESTS OF THE PRIVATE SECTORS.

2) FOREIGN PRIVATE BANKING CIRCLES ARE CONCERNED ABOUT
THE WEAKENING POSITION OF THE PRIVATE SECTOR. THE STRIKE
WILL LEAVE THE PRIVATE SECTOR SO SEAK THAT THEY WILL
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NOT BE ABLE TO PREVENT THE RADICALIZATION OF NICARA-
GUAN SOCIETY BY EXTREMISTS. 3) IN VIEW OF THE
ABOVE, THE FOREIGN PRIVATE BANKS HAVE RECENTLY BEEN
REDUCING CREDIT, AND SUPPLIERS CREDIT AS WELL, TO
THE NICARAGUAN PRIVATE SECTOR. 4) THE WEAKENING OF
THE PRIVATE SECTOR IS MORE EVIDENT IN THE FINANCIAL
SUBSECTOR WHERE UNCERTAINTY HAS CAUSED A DRAIN ON

RESOURCES AT A TIME WHEN DECLINING EXTERNAL RESOURCES SHOULD BE MADE UP BY INTERNAL RESOURCES. 5) UNTIL NOW THE SHRINKING OF INTERNAL CREDIT HAS NOT BEEN EVIDENT BECAUSE OF STRONG BANK PORTFOLIOS AND THE SUPPLY OF RESOURCES BY THE CENTRAL BANK AND THE FOREIGN BANKS. 6) THE STRIKE WILL CAUSE A NEW DRAIN OF RESOURCES WHICH WILL NOT BE MADE UP BY THE CENTRAL BANK AND FOREIGN BANKS BECAUSE: A) FOREIGN BANKS WILL BE UNWILLING TO LEND MORE TO NICARAGUA; B) THE CENTRAL BANK WILL NOT RISK LOSING NEW RESERVES BECAUSE IT NEEDS TO PROTECT THE VALUE OF THE CORDOBA AND UNLIKE THE PRIVATE SECTOR THE GON IS SUCCESSFULLY RENEGOTIATING LOANS WITH COMMERCIAL BANKS; C) NEEDING TO MAINTAIN THE EXTERNAL CREDIT OF THE GON, THE CENTRAL BANK WILL NOT HELP THE LOCAL COMMERCIAL BANKS WHICH IN TURN WILL HAVE TO REDUCE CREDIT TO LOCAL INDUSTRY AND COMMERCE LEADING TO VIRTUAL ECONOMIC PARALYSIS. THE PRIVATE SECTOR WILL HAVE TO REDUCE ACTIVITY TO THE MINIMUM LEVEL OR, BANKS WILL HAVE TO FREEZE FUNDS AND NOT MAKE THEM AVAILABLE UNTIL A LONG TIME AFTER THE RENEWAL OF ACTIVITY. 7) NEITHER OF THESE TWO ALTERNATIVES IS GOOD FOR THE PRIVATE SECTOR AND WOULD LEAD TO SUCH WEAKNESS THAT IT IS DISINGENUOUS TO BELIEVE THEY WILL BE STRONG ENOUGH TO DECISIVELY INFLUENCE THE POLITICAL AND ECONOMIC FATE OF THE COUNTRY. 8) THUS, MY CONCLUSIONS ARE LIMITED OFFICIAL USE

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THE FOLLOWING: A) THE PRIVATE SECTOR CANNOT WEAKEN ITSELF AS ITS STRENGTH LIES IN ITS CAPACITY AND THE POSSIBILITY OF BEING ABLE TO EXERCISE ITS INFLUENCE TO FIND POLITICAL SOLUTIONS (TO THE COUNTRY' PROBLEMS), WHICH IS THE MAIN CONSIDERATION FOR OBTAINING EXTERNAL RESOURCES. B) THE PRIVATE SECTOR SHOULD SHOW ITS AUTONOMY IN FACE OF ANY POLITICAL GROUP AND NOT ALLOW ANY OF THEM TO IMPOSE UPON IT DECISIONS ON POLITICAL STRATEGY THAT WEAKEN ITS VERY EXISTENCE AS A LIVING FORCE IN THE COUNTRY. C) THE STRIKE WILL AGAIN BRING A GREATER STRANGULATION OF THE FINANCIAL SECTOR, WITH THE ADDITIONAL AGGRAVATION THAT IT WILL ALSO EXTEND TO THE SECTORS THAT DO NOT JOIN THE STRIKE, UNLESS MEASURES ARE TAKEN TO REDISTRIBUTE THE CREDIT OF THE PARALYZED BUSINESSES TO THOSE REMAINING OPEN. D) THE STRIKE WILL RESTRICT EXTERNAL CREDIT TO THE COMMERCIAL AND INDUSTRIAL SECTORS EVEN MORE AT A TIME WHEN THE AVAILABILITY OF INTERNAL RESOURCES IS BEING EXHAUSTED. E) THE STRIKE DOES NOT SIGNIFICANTLY WEAKEN THE GOVERNMENT, BUT IT WILL GRAVELY WEAKEN THE PRIVATE SECTOR IN FACE OF THE RADICAL GROUPS WHICH

HAVE AS A FINAL OBJECTIVE THE EXTINCTION OF THE
NICARAGUAN BUSINESS SECTOR AND OF PRIVATE PROPERTY,
WHICH WOULD LEAD TO A RECONSIDERATION OF PRIVATE
FINANCIAL RELATIONS WITH THE ESTERNAL SECTOR, THUS
AGRAVATING THE CREDIT SITUATION. F) IF ONLY ONE
SECTOR DECIDES TO JOIN THE STRIKE IN AN ISOLATED
MANNER, IT WILL BE HURT MORE IN ITS INTERNAL AND
EXTERNAL RESOURCES AS IT WILL SHOW THAT IT IS A
COMMON TOOL BEING MANIPULATED BY THE POLITICAL
GROUPS, AND THAT IN ITS SHORT TERM STRATEGIES IT
DOES NOT TAKE INTO CONSIDERATION THE NEED TO
MAINTAIN, IN THE SHORT AND LONG TERM, A STRONG
PRIVATE SECTOR FOR ITS OWN DEFENSE AND FOR THE
DEFENSE OF THE INTERESTS OF THE NICARAGUAN PEOPLE.
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9. IN FACE OF THE ABOVE ANALYSIS, I PROPOSE AN
ENERGENCY MEETING OF THE NATIONAL PLANNING COUNCIL
TO ANALIZE THE MEASURES TO BE TAKEN AS A GREAT
MAJORITY OF THEM ORIGINATE FROM THE MONETARY AND
CREDIT FIELD, AND WILL REQUIRE AN INSTITUTIONAL
COORDINATION BY THIS ORGANIZATION. MY PROPOSAL
WOULD BE:

A) TO ASSURE THOSE BUSINESSES THAT REAMIN OPEN

THE NECESSARY RESOURCES THROUGH THE ALLOCATION OF
LOANS THAT OPPORTUNELY MAY BE RECUPERATED FROM THE
CLOSED BUSINESSES. B) TO AVOID THE DETERIORATION
OF CHATTEL MORTGAGES AND GUARANTIES GIVEN BY THE
CLOSED BUSINESSES. C) TO MAINTAIN EXTERNAL LOANS,
MADE TO THE OPEN BUSINESSES, GUARANTEED BY THE
BANKING SYSTEM WITH THE SUPPORT OF THE CENTRAL BANK.
D) TO STOP THE EXTENSION OF ACCOMMODATION ENDORSE-
MENT TO CLOSED BUSINESSES AND IN THE DEFAULT OF THESE,
OR OF LETTERS OF CREDIT, TO PROCEED TO THEIR IMMEDIATE
COLLECTION WITHOUT SUBSTITUTION FROM LOCAL RESOURCES.
E) TO PREPARE A MASSIVE PLAN OF PUBLIC WORKS IN
MANAGUA TO COMPENSATE FOR THE UNEMPLOYMENT CAUSED
IN OTHER SECTORS. F) TO SUPPORT THE FINANCIAL
SYSTEM WHILE ADJUSTING PORTFOLIOS TO THE NEW RESOURCES.
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G) TO CUT (ALL) EXPENSES EXCEPT WAGES AND SALARIES AND
TO ACCELERATE INVESTMENT IN WORKS ALREADY BEGUN.

3. THE GON TOOK THE FIRST MEASURES TO BREAK THE
STRIKE, IN KEEPING WITH THE PHILOSOPHY OF THE INCER
MEMO, BU ISSUING A STATEMENT ON AUGUST 28 FROM THE
PRESIDENT'S SECRETARIAT OF INFORMATION AND PRESS
INFORMING THAT THE COMMISSION OF SUPERVISION (OF
BANKS) IN EMERGENCY SESSION AHD PROMULGATED NEW
REGULATIONS REGARDING THE STRIKING COMPANIES.
HENCEFORTH, COMMERCIAL BANKS MUST MAINTAIN A TWENTY
FIVER PERCENT RESERVE AGAINST THE OUTSTANDING PAYMENTS
TO BE MADE IN THE NEXT 12 MONTHS OF A LOAN TO ANY
STRIKING COMPANY, OR CALL THE LOAN. THE SUPERINTEN-
DENT OF BANKS CAN RAISE THE PRECENT OF RESERVE (UP
TO 100 PERCENT) REQUIRED IN SPECIFIC CASES. IT HAS
ALWAYS BEEN HIS OFFICES RESPONSIBILITY TO REVIEW
BANKS PORTLOLIOS. THE SUPERINTENDENT WILL NOTIFY
THE COMMERCIAL BANKS OF WHO THE COMPANIES TO
BE AFFECTED WILL BE.

4. THE BANKERS ASSOCIATION MET AT 4:00 PM ON
AUGUST 29 TO DISCUSS THE NEW REGULATIONS. THEY
DECIDED TO MEET WITH CENTRAL BANK PRESIDENT R.
INCER ON THE 30TH TO MAKE KNOWN THEIR CONCERNS TO
HIM. DURING THE AFTERNOON OF AUGUST 29 THE SUPER-
INTENDENT OF BANKS ISSUED A LIST OF TWELVE COMPANIES
AGAINST WHICH THE COMMERCIAL BANKS WILL BE REQUIRED
TO HOLD THE 25 PERCENT RESERVE FOR OUTSTANDING LOANS.
THE FIRMS ON THE LIST ARE THE FOLLOWING: COLGATE
PALMOLIVE (AMCORP SUBSIDIARY WHICH DISTRIBUTES COL-
GATE PALMOLIVE PRODUCTS), FABRICA VENUS (CLOTHING
MANUFACTURER), CASA CROSS (IDDISTRIBUTOR OF BRITISH-

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MANUFACTURED VEHICLES), UNIMAR (AMCORP SUBSIDIARY WHICH DISTRIBUTES UNITED BRANDS PRODUCTS IN NICARAGUA), LA CURACAO (A DUTCH TRADING FIRM), CHIPS (A RESTAURANT CHAIN), STANDARD STEEL (MANUFACTURER OF OFFICE FURNITURE), SUPERMERCADO LA COLONIA (NICARAGUA'S LARGEST SUPERMARKET CHAIN), CASA MAN-TICA (DISTRIBUTOR OF GENERAL MERCHANDISE), VILLASA (PHARMACEUTICAL DISTRIBUTING FIRM), LABORATORIOS RARPE (PHARMACEUTICAL MIXING PLANT), AND FERTICA (MEXICAN AGRO-CHEMICAL MANUFACTURING FIRM).

5. COMMENT: INCER'S MEMORANDUM IS AN ECONOMIC DOCUMENT WITH POLITICAL MOTIVATION AND POLITICAL TARGETS. IT TRIES TO THREATEN AND DISCOURAGE THE PRIVATE SECTOR AND PLACES BLAME ON THE PRIVATE SECTOR FOR THE CURRENT ECONOMIC DIFFICULTIES OF NICARAGUA AND THE CLEARLY-VISIBLE WORSE SITUATION ON THE HORIZON. ITS INTENTION IS TO BREAK THE STRIKE. CERTAINLY INCER WOULD NOT UNDERTAKE TO WRITE AND MAKE PUBLIC SUCH A DOCUMENT WITHOUT THE APPROVAL OF SOMOZA. THE PRIVATE SECTOR SEES IT AS A THREAT OF BLACKMAIL AND ONE RESULT WASMMVVM THAT THE CHAMBER OF INDUSTRIES VOTED ON AUGUST 30 TO SUPPORT THE STRIKE. THE MEMO'S ATTEMPT TO SHIFT BLAME FOR THE ECONOMIC MESS THE COUNTRY IS IN, PARTIALLY CAUSED BY THE ECONOMIC MISMANAGEMENT OF THE SOMOZA REGIME, TO THE STRIKE OF THE PRIVATE SECTOR IS TRANSPARENT AND FOOLS NO ONE. WHETHER IN THE LONG RUN THE MEMO AND MEASURES THAT COME OUT OF THE MEETING OF THE PLANNING COUNCIL TO DEAL WITH THE STRIKE ARE SUCCESSFUL WILL BE DETERMINED IN THE COMING WEEKS BUT FOR THE MOMENT IT HAS CAUSED EVEN GREATER RESISTANCE BY THE PRIVATE SECTOR TO THE SOMOZA REGIME. FOR ITS PART THE NEW BANKING REGULATION APPEARS TO BE BASED ON A DOUBTFUL INTERPRETATION OF THE LAW AND IS A SHABBY MEASURE TO USE THE

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COMMERCIAL BANKS TO POLICE THE PRIVATE SECTOR AND ASSIST THE GON IN BREAKING THE STRIKE. ON AUGUST 30 BOTH INDE AND THE CHAMBER OF INDUSTRIES VOTED TO NOT ONLY SUPPORT THE STRIKE BUT TO CONDEMN THE INCER MEMO.

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